The Fiscal Monitor

A Publication of the Department of Finance

Highlights

July 2002: budgetary deficit of $128 million

There was a budgetary deficit of $128 million in July 2002, compared to a surplus of $1.5 billion in July 2001.[1] Most of the year-over-year deterioration in the budgetary balance is attributable to higher corporate and personal income tax refunds, reflecting the lagged impact of the weakness in the economy in 2001, and increased program spending. Budgetary revenues declined $1.1 billion, while program spending increased by $0.8 billion. Public debt charges declined by $0.2 billion.

April to July 2002: budgetary surplus of $4.6 billion

The budgetary surplus is estimated at $4.6 billion for the April to July 2002 period, down $6.4 billion from the surplus of $11.0 billion reported in the same period of 2001-02. The decline in the year-over-year surplus is largely attributable to developments affecting personal and corporate income tax revenues with respect to the 2001 tax year. This decline was expected given the extraordinary net capital gains realizations in the 2000 tax year, which resulted in record high final income tax payments in April and May 2001, and the decline in the stock market in 2001, which resulted in higher refunds and lower settlement payments in April and May 2002. In addition, corporate income tax refunds are up significantly this year, as corporations are applying losses experienced in 2001 to taxes paid in previous years.

On a year-over-year basis, the deterioration in the surplus over the first four months is attributable to lower budgetary revenues, down $5.1 billion, and higher program spending, up $2.6 billion, primarily reflecting the impact of previous budget measures. Public debt charges were down $1.3 billion due to the decline in the average effective interest rate on interest-bearing debt.

[1] Budgetary revenues in 2001-02 were affected by systems problems relating to personal income tax and goods and services tax (GST) refunds. This had the effect of overstating the April 2001 budgetary surplus and understating the surpluses in other months. This will have no impact on the final results for the year as a whole. The July 2001 surplus was originally estimated at $0.8 billion.

July 2002: budgetary results

Budgetary revenues declined $1.1 billion, or 7.3 per cent, in July 2002 on a year-over-year basis.

- Personal income tax revenues were down $0.3 billion, or 4.9 per cent, primarily due to higher tax refunds with respect to the 2001 tax year. Partially offsetting this were higher deductions from employment income, attributable to the strong growth in employment since the beginning of the year.
- Corporate income tax revenues were down $0.9 billion, or 42.6 per cent, due to higher refunds relating to the overpayment of taxes in the past.
- Employment insurance (EI) premium revenues were virtually unchanged, as the decline in premium rates (the employee rate for 2002 is $2.20 per $100 of insurable earnings compared to $2.25 in 2001) offset the impact of the growth in the number of people employed and therefore paying premiums.

Table 1
Summary statement of transactions

	July		April to July	
	2001	2002	2001-02	2002-03
	($ millions)			
Budgetary transactions				
Revenues	14,568	13,509	61,841	56,743
Program spending	-9,741	-10,549	-37,557	-40,148
Operating surplus	4,827	2,960	24,284	16,595
Public debt charges	-3,345	-3,088	-13,250	-11,952
Budgetary balance (deficit/surplus)	1,482	-128	11,034	4,643
Non-budgetary transactions	341	448	-10,009	-12,117
Financial requirements/source (excluding foreign exchange transactions)	1,823	320	1,025	-7,474
Foreign exchange transactions	-443	1,364	-131	109
Net financial balance	1,380	1,684	894	-7,365
Net change in borrowings	-1,589	-3,709	-10,573	-1,629
Net change in cash balances	-209	-2,025	-9,679	-8,994
Cash balance at end of period			3,499	2,955

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds. Monthly estimates for 2001-02 have been revised from those previously published.

- Excise taxes and duties were up $0.2 billion, or 5.1 per cent, primarily attributable to a strong gain in GST revenues, reflecting both increases in gross collections and lower refunds.
- Non-tax revenues were down sharply, reflecting the timing of receipts. They were up sharply in June.

On a year-over-year basis, program spending increased by $0.8 billion, or 8.3 per cent, with increases recorded in all major components.

- Transfers to persons were up 6.5 per cent. Elderly benefits increased 2.0 per cent. This year-over-year increase is somewhat lower than expected, reflecting the timing of payments. The increase of 15.7 per cent in EI benefits was attributable to both higher regular benefits, reflecting an increase in the number of beneficiaries, and program enhancements.
- Transfers to other levels of government were up 4.2 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST). This increase reflects the September 2000 agreement reached by first ministers to increase base funding from $17.3 billion in 2001-02 to $18.6 billion in 2002-03.
- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, increased by 11.8 per cent, after declining by 4.9 per cent in June. The monthly fluctuations in this component are due in large part to the timing of payments.

Public debt charges, on a year-over year basis, declined 7.4 per cent, solely attributable to a decrease in the average effective interest rate, as the stock of interest-bearing debt was slightly higher.

Table 2
Budgetary revenues

	July			April to July		
	2001	2002	Change	2001-02	2002-03	Change
	($ millions)		(%)	($ millions)		(%)
Income taxes						
Personal income tax	6,358	6,048	-4.9	29,917	26,110	-12.7
Corporate income tax	2,028	1,164	-42.6	8,859	6,504	-26.6
Other income tax revenue	291	363	24.7	1,203	1,168	-2.9
Total income tax	8,677	7,575	-12.7	39,979	33,782	-15.5
Employment insurance premium revenues	1,654	1,647	-0.4	6,981	6,887	-1.3
Excise taxes and duties						
Goods and services tax	2,364	2,525	6.8	8,111	9,035	11.4
Customs import duties	250	230	-8.0	923	1,032	11.8
Sales and excise taxes	784	781	-0.4	2,959	3,066	3.6
Air Travellers Security Charge		34			82	
Total excise taxes and duties	3,398	3,570	5.1	11,993	13,215	10.2
Total tax revenues	13,729	12,792	-6.8	58,953	53,885	-8.6
Non-tax revenues	839	717	-14.5	2,888	2,859	-1.0
Total budgetary revenues	14,568	13,509	-7.3	61,841	56,743	-8.2

April to July 2002: budgetary results

Over the first four months of fiscal year 2002-03, the budgetary surplus is estimated at $4.6 billion, compared to a surplus of $11.0 billion reported in the same period of 2001-02. This decline reflects lower budgetary revenues, largely attributable to developments related to the 2001 tax year, and higher program spending. In contrast, public debt charges were lower.

Over the first four months of 2002-03, budgetary revenues were down $5.1 billion, or 8.2 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections declined $3.8 billion, or 12.7 per cent. Virtually all of this decline is attributable to lower final tax payments and higher refunds with respect to the 2001 tax year, reflecting weakness in the stock market and the associated lower net capital gains realizations. However, it should be noted that the results for the same period in 2001 were affected by the extraordinary stock market gains in 2000, which resulted in record final tax settlement payments in April and May 2001. The results to date were also dampened by the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. Partially offsetting these impacts were higher taxes associated with increases in employment income.
- Corporate income tax revenues were down $2.4 billion, or 26.6 per cent. This is primarily attributable to higher refunds pertaining to previous years' taxes paid. In addition, monthly instalment payments are lower as they are largely based on 2001 tax liabilities, a year in which corporate profits declined.
- EI premium revenues were down marginally, primarily due to the lower premium rates in effect for 2002.

Table 3

Budgetary expenditures

	July			April to July		
	2001	2002	Change	2001-02	2002-03	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,103	2,145	2.0	8,306	8,706	4.8
Employment insurance benefits	1,035	1,198	15.7	3,926	4,671	19.0
Total	3,138	3,343	6.5	12,232	13,377	9.4
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	5,767	6,200	7.5
Fiscal transfers	1,045	1,042	-0.3	4,143	4,137	-0.1
Alternative Payments for Standing Programs	-200	-210	5.0	-800	-841	5.1
Total	2,287	2,382	4.2	9,110	9,496	4.2
Direct program spending						
Subsidies and other transfers						
Agriculture	41	44	7.3	422	107	-74.6
Foreign Affairs	177	208	17.5	503	421	-16.3
Health	121	175	44.6	394	499	26.6
Human Resources Development	123	96	-22.0	362	371	2.5
Indian and Northern Development	326	305	-6.4	1,496	1,468	-1.9
Industry and Regional Development	104	136	30.8	430	453	5.3
Veterans Affairs	127	142	11.8	493	561	13.8
Other	25	118	372.0	710	641	-9.7
Total	1,044	1,224	17.2	4,810	4,521	-6.0
Payments to Crown corporations						
Canadian Broadcasting Corporation	80	75	-6.3	400	407	1.8
Canada Mortgage and Housing Corporation	158	153	-3.2	632	642	1.6
Other	136	194	42.6	574	670	16.7
Total	374	422	12.8	1,606	1,719	7.0
Operating and capital expenditures						
Defence	808	911	12.7	2,827	3,020	6.8
All other departmental expenditures	2,090	2,267	8.5	6,972	8,015	15.0
Total	2,898	3,178	9.7	9,799	11,035	12.6
Total direct program spending	4,316	4,824	11.8	16,215	17,275	6.5
Total program expenditures	9,741	10,549	8.3	37,557	40,148	6.9
Public debt charges	3,345	3,096	-7.4	13,250	11,952	-9.8
Total budgetary expenditures	13,086	13,645	4.3	50,807	52,100	2.5
Memorandum item:						
Total transfers	6,469	6,949	7.4	26,152	27,394	4.7

- Excise taxes and duties increased by $1.2 billion, or 10.2 per cent, primarily reflecting higher GST revenues, customs import duties and tobacco excise taxes and duties, and the introduction of the Air Travellers Security Charge.
- Non-tax revenues were down 1.0 per cent.

Over the first four months of 2002-03, program spending increased by $2.6 billion, or 6.9 per cent, in the April to July 2002 period, compared to the same period last year.

- Transfers to persons were up 9.4 per cent, reflecting both higher elderly and EI benefits.
- Transfers to other levels of government were up 4.2 per cent, attributable to higher cash transfers under the CHST. Entitlements under the fiscal transfer programs were virtually unchanged, primarily reflecting the timing of payments.
- Direct program spending increased by 6.5 per cent. During the first few months of the fiscal year, developments in this component are largely affected by the timing of payments.

Public debt charges declined by $1.3 billion, or 9.8 per cent, reflecting the impact of the lower average effective interest rate on the stock of debt.

Financial requirement of $7.5 billion (excluding foreign exchange transactions) for April to July 2002

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $12.1 billion in the first four months of 2002-03, compared to a net requirement of $10.0 billion in the same period in 2001-02.

As a result, with a budgetary surplus of $4.6 billion and a net requirement of $12.1 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of $7.5 billion in the April to July 2002 period, compared to a financial source of $1.0 billion in the same period last year.

Net financial requirement of $7.4 billion for April to July 2002

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account (EFA). The objectives of the EFA are to provide general foreign currency liquidity for the Government and promote orderly conditions in the foreign exchange market. The EFA contains foreign currency investments, the Government's gold holdings and assets related to Canada's commitment to the International Monetary Fund (IMF). Increases in the level of the reserves through borrowings, contributions to the IMF, and/or selling of Canadian dollars represent a requirement. Conversely, decreases in the level of reserves represent a source of funds. Taking all of these factors into account, there was a net source of $0.1 billion in the first four months of 2002-03, compared to a net requirement of $0.1 billion in the same period in 2001-02.

With a budgetary surplus of $4.6 billion, a net requirement of $12.1 billion from non-budgetary transactions and a net source of $0.1 billion from foreign exchange transactions, there was a net financial requirement of $7.4 billion in the April to July 2002 period, compared to a net source of $0.9 billion in the same period last year.

Table 4

The budgetary balance and financial requirements/source

	July		April to July	
	2001	2002	2001-02	2002-03
		($ millions)		
Budgetary balance (deficit/surplus)	1,482	-128	11,034	4,643
Loans, investments and advances				
Crown corporations	-16	7	217	84
Other	-26	-7	7	86
Total	-42	0	224	170
Specified purpose accounts				
Canada Pension Plan Account	-418	-759	-861	-603
Superannuation accounts	50	79	-446	-516
Other	77	25	53	-140
Total	-291	-655	-1,254	-1,259
Other transactions	674	1,103	-8,979	-11,028
Total non-budgetary transactions	341	448	-10,009	-12,117
Financial requirements/source (excluding foreign exchange transactions)	1,823	320	1,025	-7,474
Foreign exchange transactions	-443	1,364	-131	109
Net financial balance	1,380	1,684	894	-7,365

Table 5

Net financial balance and net borrowings

	July		April to July	
	2001	2002	2001-02	2002-03
		($ millions)		
Net financial balance	1,380	1,684	894	-7,365
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	400	-29	-1,641	-6,081
Canada Savings Bonds	-70	-91	-236	-403
Treasury bills	-1,500	-1,850	-6,100	6,850
Other	0	0	-4	-8
Total	-1,170	-1,970	-7,981	358
Payable in foreign currencies				
Marketable bonds	0	-1,594	-1,576	-1,594
Notes and loans	0		-41	
Canada bills	-419	-144	-802	-393
Canada notes	0	0	-173	0
Total	-419	-1,738	-2,592	-1,987
Net change in borrowings	-1,589	-3,708	-10,573	-1,629
Change in cash balance	-209	-2,024	-9,679	-8,994

Table 6

Condensed statement of assets and liabilities[1]

	March 31, 2002	July 31, 2002	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	41,014	30,301	-10,713
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	127,209	126,693	-516
Canada Pension Plan (net of securities)	6,756	6,153	-603
Other pension and other accounts	7,454	7,314	-140
Total pension and other accounts	141,419	140,160	-1,259
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,865	287,763	-6,102
Treasury bills	94,200	100,890	6,690
Canada Savings Bonds	23,759	23,563	-196
Other	3,390	3,383	-7
Subtotal	415,214	415,599	385
Payable in foreign currencies	27,033	25,044	-1,989
Total unmatured debt	442,247	440,643	-1,604
Total interest-bearing debt	583,666	580,803	-2,863
Total liabilities	624,680	611,104	-13,576
Assets			
Cash and accounts receivable	14,796	6,142	-8,654
Foreign exchange accounts	52,119	52,010	-109
Loans, investments and advances (net of allowances)	16,387	16,217	-170
Total assets	83,302	74,369	-8,933
Accumulated deficit (net public debt)	541,378	536,735	-4,643

[1] Assumes a fiscal balance of $6 billion for 2001-02.

Net borrowings down $1.6 billion for April to July 2002

To finance this net financial requirement, the Government reduced it cash balances by $9.0 billion, which also allowed it to reduce its holding of market debt by $1.6 billion to the end of July 2002. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.

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Highlights

August 2002: budgetary deficit of $4 million

There was a budgetary deficit of $4 million in August 2002, compared to a surplus of $388 million in August 2001. The year-over-year deterioration in the budgetary balance was attributable to lower budgetary revenues (down $472 million), primarily due to higher corporate income tax refunds, and higher program spending (up $495 million). Partially offsetting the impact of these factors were lower public debt charges (down $575 million).

April to August 2002: budgetary surplus of $4.6 billion

The budgetary surplus is estimated at $4.6 billion for the April to August 2002 period, down $6.8 billion from the surplus of $11.4 billion reported in the same period of 2001-02. The decline in the year-over-year surplus is largely attributable to developments affecting personal and corporate income tax revenues with respect to the 2001 tax year. This deterioration reflects the decline in the stock market in 2001, which resulted in higher refunds and lower settlement payments in April and May 2002, and higher corporate income tax refunds, as corporations are applying losses experienced in 2001 to taxes paid in previous years.

On a year-over-year basis, the deterioration in the surplus over the first five months was attributable to lower budgetary revenues, down $5.6 billion, and higher program spending, up $3.1 billion, primarily reflecting the impact of previous budget measures. Public debt charges were down $1.9 billion due to the decline in the average effective interest rate on interest-bearing debt.

August 2002: budgetary results

Budgetary revenues declined $472 million, or 3.5 per cent, in August 2002 on a year-over-year basis.

- Personal income tax revenues were down $116 million, or 2.0 per cent, primarily due to higher tax refunds with respect to the 2001 tax year. Despite the strong growth in employment since the beginning of the year, monthly deductions from employment income were virtually unchanged.
- Corporate income tax revenues were down $0.9 billion, or 45.8 per cent, primarily due to higher refunds relating to the application of losses to taxes paid in previous years. In addition, monthly instalments for the current year's tax liability are somewhat lower.
- Employment insurance (EI) premium revenues were up slightly, as the impact of the growth in the number of people employed and therefore paying premiums is offsetting the effect of the decline in premium rates (the employee rate for 2002 is $2.20 per $100 of insurable earnings compared to $2.25 in 2001).
- Excise taxes and duties were up strongly ($570 million or 18.1 per cent). However, most of the increase was attributable to delays in the processing of goods and services tax (GST)

Table 1
Summary statement of transactions

	August		April to August	
	2001	2002	2001-02	2002-03
	($ millions)			
Budgetary transactions				
Revenues	13,297	12,825	75,137	69,567
Program spending	-9,556	-10,051	-47,112	-50,201
Operating surplus	3,741	2,774	28,025	19,366
Public debt charges	-3,353	-2,778	-16,603	-14,730
Budgetary balance (deficit/surplus)	388	-4	11,422	4,636
Non-budgetary transactions	463	-83	-9,548	-12,200
Financial requirements/source (excluding foreign exchange transactions)	851	-87	1,874	-7,564
Foreign exchange transactions	-1,022	-682	-1,153	-573
Net financial balance	-171	-769	721	-8,137
Net change in borrowings	5,767	5,743	-4,806	4,115
Net change in cash balances	5,596	4,974	-4,085	-4,022
Cash balance at end of period			9,097	7,927

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds. Monthly estimates for 2001-02 have been revised from those previously published.

refunds, which should be corrected in future months, thereby bringing the overall growth in net GST revenues more in line with its tax base – consumer expenditures.

- Non-tax revenues were down, reflecting the timing of receipts.

On a year-over-year basis, program spending increased by $495 million, or 5.2 per cent, with increases recorded in all major components.

- Transfers to persons were up 3.7 per cent. Elderly benefits increased 5.2 per cent while EI benefits were up marginally, the latter reflecting the timing of payments. A larger increase in EI benefits was expected given the increase in the number of beneficiaries and the impact of previously enacted program enhancements.
- Transfers to other levels of government were up 4.2 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST). This increase reflects the September 2000 agreement reached by first ministers to increase base funding from $17.3 billion in 2001-02 to $18.6 billion in 2002-03.
- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, increased by 6.8 per cent. The monthly fluctuations in this component are due in large part to the timing of payments.

Public debt charges, on a year-over-year basis, declined $575 million, or 17.1 per cent. This decline reflects both amortization adjustments relating to previous periods and a decrease in the average effective interest rate. The stock of interest-bearing debt was slightly higher.

Table 2

Budgetary revenues

	August			April to August		
	2001	2002	Change	2001-02	2002-03	Change
	($ millions)		(%)	($ millions)		(%)
Income taxes						
Personal income tax	5,758	5,642	-2.0	35,675	31,752	-11.0
Corporate income tax	1,972	1,069	-45.8	10,831	7,573	-30.1
Other income tax revenue	258	264	2.3	1,462	1,432	-2.1
Total income tax	7,988	6,975	-12.7	47,968	40,757	-15.0
Employment insurance premium revenues	1,492	1,516	1.6	8,473	8,402	-0.8
Excise taxes and duties						
Goods and services tax	1,997	2,522	26.3	10,109	11,557	14.3
Customs import duties	281	306	8.9	1,204	1,338	11.1
Sales and excise taxes	864	848	-1.9	3,823	3,916	2.4
Air Travellers Security Charge		36			119	
Total excise taxes and duties	3,142	3,712	18.1	15,136	16,930	11.9
Total tax revenues	12,622	12,203	-3.3	71,577	66,089	-7.7
Non-tax revenues	675	622	-7.9	3,560	3,478	-2.3
Total budgetary revenues	13,297	12,825	-3.5	75,137	69,567	-7.4

April to August 2002: budgetary results

Over the first five months of fiscal year 2002-03, the budgetary surplus was estimated at $4.6 billion, compared to a surplus of $11.4 billion reported in the same period of 2001-02. This decline reflects lower budgetary revenues, largely attributable to developments related to the 2001 tax year, and higher program spending. In contrast, public debt charges were lower.

Over the first five months of 2002-03, budgetary revenues were down $5.6 billion, or 7.4 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections declined $3.9 billion, or 11.0 per cent. Virtually all of this decline is attributable to lower final tax payments and higher refunds with respect to the 2001 tax year, reflecting weakness in the stock market and the associated lower net capital gains realizations. However, it should be noted that the results for the same period in 2001 were affected by the extraordinary stock market gains in 2000, which resulted in record final tax settlement payments in April and May 2001. The results to date were also dampened by the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. Partially offsetting these impacts were higher taxes associated with increases in employment income.
- Corporate income tax revenues were down $3.3 billion, or 30.1 per cent. This is primarily attributable to higher refunds pertaining to previous years' taxes paid. In addition, monthly instalment payments are lower as they are largely based on 2001 tax liabilities, a year in which corporate profits declined.
- EI premium revenues were down marginally, primarily due to the lower premium rates in effect for 2002.

Table 3

Budgetary expenditures

	August			April to August		
	2001	2002	Change	2001-02	2002-03	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,074	2,182	5.2	10,380	10,888	4.9
Employment insurance benefits	1,004	1,010	0.6	4,929	5,680	15.2
Total	3,078	3,192	3.7	15,309	16,568	8.2
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	7,208	7,750	7.5
Fiscal transfers	1,045	1,042	-0.3	5,190	5,180	-0.2
Alternative Payments for Standing Programs	-200	-210	5.0	-1,000	-1,051	5.1
Total	2,287	2,382	4.2	11,398	11,879	4.2
Direct program spending						
Subsidies and other transfers						
Agriculture	22	78	254.5	445	185	-58.4
Foreign Affairs	23	101	339.1	525	523	-0.4
Health	76	61	-19.7	470	560	19.1
Human Resources Development	111	146	31.5	473	517	9.3
Indian and Northern Development	284	302	6.3	1,780	1,770	-0.6
Industry and Regional Development	166	165	-0.6	595	618	3.9
Veterans Affairs	127	139	9.4	620	699	12.7
Other	132	187	41.7	843	828	-1.8
Total	941	1,179	25.3	5,751	5,700	-0.9
Payments to Crown corporations						
Canadian Broadcasting Corporation	85	75	-11.8	485	482	-0.6
Canada Mortgage and Housing Corporation	158	149	-5.7	790	791	0.1
Other	130	126	-3.1	705	797	13.0
Total	373	350	-6.2	1,980	2,070	4.5
Operating and capital expenditures						
Defence	669	761	13.8	3,496	3,780	8.1
All other departmental expenditures	2,208	2,187	-1.0	9,178	10,204	11.2
Total	2,877	2,948	2.5	12,674	13,984	10.3
Total direct program spending	4,191	4,477	6.8	20,405	21,754	6.6
Total program expenditures	9,556	10,051	5.2	47,112	50,201	6.6
Public debt charges	3,353	2,778	-17.1	16,603	14,730	-11.3
Total budgetary expenditures	12,909	12,829	-0.6	63,715	64,931	1.9
Memorandum item:						
Total transfers	6,306	6,753	7.1	32,458	34,147	5.2

- Excise taxes and duties increased by $1.8 billion, or 11.9 per cent, primarily reflecting higher GST revenues, customs import duties and tobacco excise taxes and duties, and the introduction of the Air Travellers Security Charge. As noted above, part of this increase was attributable to delays in the processing of GST refunds.
- Non-tax revenues were down 2.3 per cent.

Program spending increased by $3.1 billion, or 6.6 per cent, in the April to August 2002 period, compared to the same period last year.

- Transfers to persons were up 8.2 per cent, reflecting both higher elderly and EI benefits.
- Transfers to other levels of government were up 4.2 per cent, attributable to higher cash transfers under the CHST. Entitlements under the fiscal transfer programs were virtually unchanged, primarily reflecting the timing of payments.
- Direct program spending increased by 6.6 per cent. During the first few months of the fiscal year, developments in this component are largely affected by the timing of payments and the implementation of initiatives announced in the December 2001 budget.

Public debt charges declined by $1.9 billion, or 11.3 per cent, reflecting the impact of the lower average effective interest rate on the stock of debt.

Financial requirement of $7.6 billion (excluding foreign exchange transactions) for April to August 2002

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out.

Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $12.2 billion in the first five months of 2002-03, compared to a net requirement of $9.5 billion in the same period in 2001-02.

As a result, with a budgetary surplus of $4.6 billion and a net requirement of $12.2 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of $7.6 billion in the April to August 2002 period, compared to a financial source of $1.9 billion in the same period last year.

Net financial requirement of $8.1 billion for April to August 2002

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account (EFA). The objectives of the EFA are to provide general foreign currency liquidity for the Government and promote orderly conditions in the foreign exchange market. The EFA contains foreign currency investments, the Government's gold holdings and assets related to Canada's commitment to the International Monetary Fund (IMF). Increases in the level of the reserves through borrowings, contributions to the IMF, and/or selling of Canadian dollars represent a requirement. Conversely, decreases in the level of reserves represent a source of funds. Taking all of these factors into account, there was a net requirement of $0.6 billion in the first five months of 2002-03, compared to a net requirement of $1.2 billion in the same period in 2001-02.

Table 4

The budgetary balance and financial requirements/source

	August		April to August	
	2001	2002	2001-02	2002-03
		($ millions)		
Budgetary balance (deficit/surplus)	388	-4	11,422	4,636
Loans, investments and advances				
Crown corporations	31	12	248	95
Other	15	60	22	148
Total	46	72	270	243
Specified purpose accounts				
Canada Pension Plan Account	-334	-216	-1,196	-820
Superannuation accounts	-22	146	-466	-370
Other	-15	12	39	-128
Total	-371	-58	-1,623	-1,318
Other transactions	788	-97	-8,195	-11,125
Total non-budgetary transactions	463	-83	-9,548	-12,200
Financial requirements/source (excluding foreign exchange transactions)	851	-87	1,874	-7,564
Foreign exchange transactions	-1,022	-682	-1,153	-573
Net financial balance	-171	-769	721	-8,137

Table 5

Net financial balance and net borrowings

	August		April to August	
	2001	2002	2001-02	2002-03
		($ millions)		
Net financial balance	-171	-769	721	-8,137
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	4,350	5,214	2,709	-867
Canada Savings Bonds	-75	-76	-311	-478
Treasury bills	1,700	600	-4,400	7,450
Other	-1	0	-6	-8
Total	5,974	5,738	-2,008	6,097
Payable in foreign currencies				
Marketable bonds	0	0	-1,576	-1,594
Notes and loans	0		-41	
Canada bills	-207	5	-1,008	-388
Canada notes	0	0	-173	0
Total	-207	5	-2,798	-1,982
Net change in borrowings	5,767	5,743	-4,806	4,115
Change in cash balance	5,596	4,974	-4,085	-4,022

Table 6

Condensed statement of assets and liabilities

	March 31, 2002	August 31, 2002	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	40,679	29,869	-10,810
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	126,921	126,551	-370
Canada Pension Plan (net of securities)	6,770	5,950	-820
Other pension and other accounts	7,469	7,341	-128
Total pension and other accounts	141,160	139,842	-1,318
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,843	292,955	-888
Treasury bills	94,039	101,329	7,290
Canada Savings Bonds	23,966	23,695	-271
Other	3,391	3,384	-7
Subtotal	415,239	421,363	6,124
Payable in foreign currencies	27,032	25,048	-1,984
Total unmatured debt	442,271	446,411	4,140
Total interest-bearing debt	583,431	586,253	2,822
Total liabilities	624,110	616,122	-7,988
Assets			
Cash and accounts receivable	16,829	13,147	-3,682
Foreign exchange accounts	52,046	52,619	573
Loans, investments and advances (net of allowances)	18,746	18,503	-243
Total assets	87,621	84,269	-3,352
Accumulated deficit (net public debt)	536,489	531,853	-4,636

With a budgetary surplus of $4.6 billion, a net requirement of $12.2 billion from non-budgetary transactions and a net requirement of $0.6 billion from foreign exchange transactions, there was a net financial requirement of $8.1 billion in the April to August 2002 period, compared to a net source of $0.7 billion in the same period last year.

Net borrowings up $4.1 billion for April to August 2002

To finance this net financial requirement of $8.1 billion, the Government reduced it cash balances by $4.0 billion and increased its holding of market debt by $4.1 billion to the end of August 2002. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.

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The Fiscal Monitor

A Publication of the Department of Finance

Highlights

September 2002: budgetary surplus of $3.1 billion

There was a budgetary surplus of $3.1 billion in September 2002, compared to a surplus of $2.8 billion in September 2001. Large surpluses have traditionally been recorded in the month of September, primarily reflecting the inclusion of quarterly personal income tax instalment payments. However, the current results are also affected by stronger-than-expected goods and services tax (GST) revenue growth, which has increased at a faster rate than the growth in the applicable tax base, attributable primarily to a decline in GST refunds. Since GST refunds traditionally closely mirror developments in gross collections, net GST revenues, and hence the budgetary surplus, may be somewhat overstated in the year-to-date results.

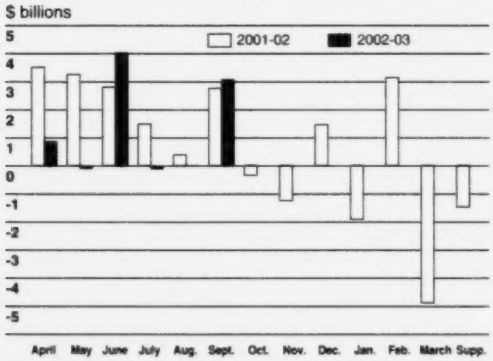
Budgetary revenues were up $1.0 billion on a year-over-year basis, with virtually all of the improvement attributable to higher GST revenues. Program spending was up $0.9 billion, while public debt charges declined $0.3 billion.

April to September 2002: budgetary surplus of $7.8 billion

The budgetary surplus is estimated at $7.8 billion for the April to September 2002 period, down $6.4 billion from the surplus of $14.2 billion reported in the same period of 2001-02. The decline in the year-over-year surplus is largely attributable to developments affecting personal and corporate income tax revenues with respect to the 2001 tax year. This deterioration reflects the decline in the stock market in 2001, which resulted in higher refunds and lower settlement payments in April and May 2002, and higher corporate income tax refunds, as corporations are applying losses experienced in 2001 to taxes paid in previous years.

It is expected that over the balance of the year, GST refunds will more closely reflect with gross collections, bringing net GST revenues more in line with the growth in the applicable GST tax base. Taking this into account, the results to date are consistent with the estimated budgetary surplus for the year as a whole of $4.0 billion presented in the October 30 *Economic and Fiscal Update.*

Monthly surplus and deficit



Revenues and expenditures

(April to September 2002)

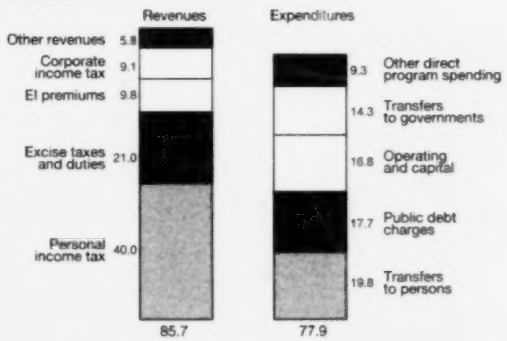


Table 1
Summary statement of transactions

	September		April to September	
	2001	2002	2001-02	2002-03
	($ millions)			
Budgetary transactions				
Revenues	15,117	16,131	90,253	85,696
Program spending	-9,168	-10,061	-56,278	-60,261
Operating surplus	5,949	6,070	33,975	25,435
Public debt charges	-3,198	-2,935	-19,801	-17,665
Budgetary balance (deficit/surplus)	2,751	3,135	14,174	7,770
Non-budgetary transactions	-458	-1,390	-9,999	-13,588
Financial requirements/source (excluding foreign exchange transactions)	2,293	1,745	4,175	-5,818
Foreign exchange transactions	1,652	1,271	499	698
Net financial balance	3,945	3,016	4,674	-5,120
Net change in borrowings	-9,449	-7,018	-14,254	-2,904
Net change in cash balances	-5,504	-4,002	-9,580	-8,024
Cash balance at end of period			3,595	3,924

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds. Estimates for 2001-02 have been revised from those previously published.

September 2002: budgetary results

On a year-over-year basis, the budgetary surplus increased by $0.4 billion to $3.1 billion in September 2002. Budgetary revenues increased $1.0 billion, or 6.7 per cent, in September 2002 on a year-over-year basis, with virtually all of the increase attributable to higher GST revenues.

- Personal income tax revenues were down $0.1 billion, or 1.3 per cent, primarily due to lower tax remittances from quarterly filers, which more than offset higher monthly deductions from employment income, reflecting the strong growth in employment.
- Corporate income tax revenues were up slightly, as higher instalment payments were largely offset by higher refunds.
- Employment insurance (EI) premium revenues were up slightly, as the impact of the growth in the number of people employed and therefore paying premiums is offsetting the effect of the decline in premium rates (the employee rate for 2002 is $2.20 per $100 of insurable earnings compared to $2.25 in 2001).
- Excise taxes and duties were up strongly ($1.0 billion or 32.7 per cent). Most of this increase was due to higher GST revenues, up $0.9 billion or 44.6 per cent. This was due to both higher gross collections and unexpectedly lower refunds.
- Non-tax revenues were up, reflecting the timing of receipts.

On a year-over-year basis, program spending increased by $0.9 billion, or 9.7 per cent, with increases recorded in all major components.

- Transfers to persons were up 6.3 per cent. Elderly benefits increased 2.4 per cent while EI benefits were up 14.8 per cent. Both components were affected by the timing of payments between August and September.

Table 2

Budgetary revenues

	September			April to September		
	2001	2002	Change	2001-02	2002-03	Change
	($ millions)		(%)	($ millions)		(%)
Income taxes						
Personal income tax	8,342	8,233	-1.3	44,017	39,985	-9.2
Corporate income tax	1,541	1,563	1.4	12,372	9,136	-26.2
Other income tax revenue	226	221	-2.2	1,688	1,652	-2.1
Total income tax	10,109	10,017	-0.9	58,077	50,773	-12.6
Employment insurance premium revenues	1,342	1,374	2.4	9,815	9,776	-0.4
Excise taxes and duties						
Goods and services tax	1,990	2,877	44.6	12,098	14,432	19.3
Customs import duties	243	280	15.2	1,447	1,618	11.8
Sales and excise taxes	819	861	5.1	4,642	4,776	2.9
Air Travellers Security Charge		32			151	
Total excise taxes and duties	3,052	4,050	32.7	18,187	20,977	15.3
Total tax revenues	14,503	15,441	6.5	86,079	81,526	-5.3
Non-tax revenues	614	690	12.4	4,174	4,170	-0.1
Total budgetary revenues	15,117	16,131	6.7	90,253	85,696	-5.0

Last month the year-over-year increase in elderly benefits was higher than expected, while that for EI benefits was considerably lower than expected.

- Transfers to other levels of government were up 4.0 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST). This increase reflects the September 2000 agreement reached by first ministers to increase base funding from $17.3 billion in 2001-02 to $18.6 billion in 2002-03.
- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, increased by 16.0 per cent. The monthly fluctuations in this component are due in large part to the timing of payments.

Public debt charges, on a year-over year basis, declined $0.3 billion, or 8.2 per cent, due to a decline in the stock of interest-bearing debt and a lower average effective interest rate on that debt.

April to September 2002: budgetary results

Over the first six months of fiscal year 2002-03, the budgetary surplus was estimated at $7.8 billion, compared to a surplus of $14.2 billion reported in the same period of 2001-02. This decline reflects lower budgetary revenues, largely attributable to developments related to the 2001 tax year, and higher program spending. In contrast, public debt charges were lower.

Over the first six months of 2002-03, budgetary revenues were down $4.6 billion, or 5.0 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections were down $4.0 billion, or 9.2 per cent. Virtually all of this decline is attributable to lower final tax payments and higher refunds with respect to the 2001 tax year, reflecting weakness in the stock market and the associated lower net capital gains realizations. Quarterly instalment payments were also lower, as these payments are now largely based on tax liabilities for 2001.

Table 3

Budgetary expenditures

	September			April to September		
	2001	2002	Change	2001-02	2002-03	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,121	2,171	2.4	12,501	13,059	4.5
Employment insurance benefits	967	1,110	14.8	5,897	6,790	15.1
Total	3,088	3,281	6.3	18,398	19,849	7.9
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	8,650	9,300	7.5
Fiscal transfers	1,046	1,040	-0.6	6,236	6,220	-0.3
Alternative Payments for Standing Programs	-200	-210	5.0	-1,200	-1,261	5.1
Total	2,288	2,380	4.0	13,686	14,259	4.2
Direct program spending						
Subsidies and other transfers						
Agriculture	19	43	126.3	463	229	-50.5
Foreign Affairs	108	97	-10.2	633	620	-2.1
Health	121	157	29.8	591	717	21.3
Human Resources Development	152	122	-19.7	625	639	2.2
Indian and Northern Development	348	269	-22.7	2,129	2,039	-4.2
Industry and Regional Development	12	67	458.3	607	685	12.9
Veterans Affairs	127	142	11.8	747	841	12.6
Other	216	227	5.1	1,055	1,054	-0.1
Total	1,103	1,124	1.9	6,850	6,824	-0.4
Payments to Crown corporations						
Canadian Broadcasting Corporation	80	91	13.8	565	573	1.4
Canada Mortgage and Housing Corporation	158	195	23.4	948	986	4.0
Other	146	139	-4.8	851	936	10.0
Total	384	425	10.7	2,364	2,495	5.5
Operating and capital expenditures						
Defence	742	908	22.4	4,238	4,688	10.6
All other departmental expenditures	1,563	1,943	24.3	10,742	12,146	13.1
Total	2,305	2,851	23.7	14,980	16,834	12.4
Total direct program spending	3,792	4,400	16.0	24,194	26,153	8.1
Total program expenditures	9,168	10,061	9.7	56,278	60,261	7.1
Public debt charges	3,198	2,935	-8.2	19,801	17,665	-10.8
Total budgetary expenditures	12,366	12,996	5.1	76,079	77,926	2.4
Memorandum item:						
Total transfers	6,479	6,785	4.7	38,934	40,932	5.1

However, it should be noted that the results for the same period in 2001 were affected by the extraordinary stock market gains in 2000, which resulted in record final tax settlement payments in April and May 2001. The results to date were also dampened by the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. Partially offsetting these impacts were higher taxes associated with increases in employment income.

- Corporate income tax revenues were down $3.2 billion, or 26.2 per cent, primarily due to higher refunds pertaining to previous years' taxes paid. In addition, monthly instalment payments are lower as they are largely based on 2001 tax liabilities, a year in which corporate profits declined.
- EI premium revenues were down marginally, primarily due to the lower premium rates in effect for 2002.
- Excise taxes and duties increased by $2.8 billion, or 15.3 per cent, primarily reflecting higher GST revenues, customs import duties and tobacco excise taxes and duties, as well as the introduction of the Air Travellers Security Charge. Revenues from energy-related taxes were lower. GST revenues were up 19.3 per cent, compared to an increase in the applicable tax base – consumer expenditures – of about 4 per cent. The difference in growth rates was largely attributable to a decline in refunds, which appears to be overstating the underlying increase in net GST revenues. Traditionally, GST refunds move closely in line with the growth in gross GST collections. It is expected that over the balance of the year, GST refunds will more closely reflect the changes in gross GST collections, bringing net GST revenues more in line with the growth in the applicable GST tax base.
- Non-tax revenues were virtually unchanged from the same period last year.

Over the first six months of 2002-03, program spending increased by $4.0 billion, or 7.1 per cent, compared to the same period last year.

- Transfers to persons were up 7.9 per cent, reflecting both higher elderly and EI benefits. The increase in elderly benefits reflects the increase in the number of people eligible to receive benefits as well as higher average benefits, which are adjusted quarterly to reflect changes in consumer prices.
- Transfers to other levels of government were up 4.2 per cent, attributable to higher cash transfers under the CHST. Entitlements under the fiscal transfer programs were virtually unchanged, primarily reflecting the timing of payments.
- Direct program spending increased by 8.1 per cent. Subsidies and other transfers were virtually unchanged. Developments in this component are largely affected by the timing of payments. Payments to Crown corporations were up 5.5 per cent. Departmental and agency operating and capital spending were up 12.4 per cent, in part due to the implementation of initiatives announced in the December 2001 budget.

Public debt charges declined by $2.1 billion, or 10.8 per cent, reflecting both a reduction in the stock of interest-bearing debt and a lower average effective interest rate on that debt.

Financial requirement of $5.8 billion (excluding foreign exchange transactions) for April to September 2002

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

Table 4

The budgetary balance and financial requirements/source

	September		April to September	
	2001	2002	2001-02	2002-03
		($ millions)		
Budgetary balance (deficit/surplus)	2,751	3,135	14,174	7,770
Loans, investments and advances				
Crown corporations	106	87	355	182
Other	-528	-565	-507	-417
Total	-422	-478	-152	-235
Specified purpose accounts				
Canada Pension Plan Account	578	140	-618	-679
Superannuation accounts	-199	-830	-663	-1,118
Other	-6	-2	34	-130
Total	373	-692	-1,247	-1,927
Other transactions	-409	-220	-8,600	-11,426
Total non-budgetary transactions	-458	-1,390	-9,999	-13,588
Financial requirements/source (excluding foreign exchange transactions)	2,293	1,745	4,175	-5,818
Foreign exchange transactions	1,652	1,271	499	698
Net financial balance	3,945	3,016	4,674	-5,120

Table 5

Net financial balance and net borrowings

	September		April to September	
	2001	2002	2001-02	2002-03
		($ millions)		
Net financial balance	3,945	3,016	4,674	-5,120
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-8,693	-7,449	-5,983	-8,317
Canada Savings Bonds	-38	-51	-349	-530
Treasury bills	400	550	-4,000	8,000
Other	-4	-5	-9	-12
Total	-8,335	-6,955	-10,341	-859
Payable in foreign currencies				
Marketable bonds	0	0	-1,576	-1,594
Notes and loans	0		-41	
Canada bills	-1,114	-63	-2,123	-451
Canada notes	0	0	-173	0
Total	-1,114	-63	-3,913	-2,045
Net change in borrowings	-9,449	-7,018	-14,254	-2,904
Change in cash balance	-5,504	-4,002	-9,580	-8,024

Table 6

Condensed statement of assets and liabilities

	March 31, 2002	September 30, 2002	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	40,679	31,009	-9,670
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	126,921	125,803	-1,118
Canada Pension Plan (net of securities)	6,770	6,091	-679
Other pension and other accounts	7,469	7,339	-130
Total pension and other accounts	141,160	139,232	-1,928
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,843	285,526	-8,317
Treasury bills	94,039	102,039	8,000
Canada Savings Bonds	23,966	23,436	-530
Other	3,391	3,379	-12
Subtotal	415,239	414,380	-859
Payable in foreign currencies	27,032	24,987	-2,045
Total unmatured debt	442,271	439,366	-2,905
Total interest-bearing debt	583,431	578,599	-4,832
Total liabilities	624,110	609,607	-14,502
Assets			
Cash and accounts receivable	16,829	10,559	-6,270
Foreign exchange accounts	52,046	51,348	-698
Loans, investments and advances (net of allowances)	18,746	18,981	235
Total assets	87,621	80,889	-6,733
Accumulated deficit (net public debt)	536,489	528,718	-7,770

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $13.6 billion in the first six months of 2002-03, compared to a net requirement of $10.0 billion in the same period in 2001-02. Part of the higher requirement was attributable to lower transfers to the Tax Collection Accounts due to lower personal and corporate income tax revenues over the first six months of this year compared to the same period last year.

As a result, with a budgetary surplus of $7.8 billion and a net requirement of $13.6 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of $5.8 billion in the April to September 2002 period, compared to a financial source of $4.2 billion in the same period last year.

Net financial requirement of $5.1 billion for April to September 2002

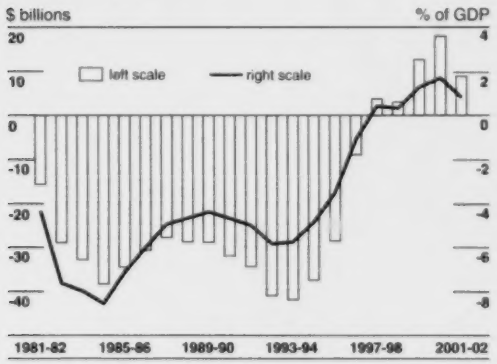
Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account (EFA). The objectives of the EFA are to provide general foreign currency liquidity for the Government and promote orderly conditions in the foreign exchange market. The EFA contains foreign currency investments, the Government's gold holdings and assets related to Canada's commitment to the International Monetary Fund (IMF). Increases in the level of the reserves through borrowings, contributions to the IMF, and/or selling of Canadian dollars represent a requirement. Conversely, decreases in the level of reserves represent a source of funds. Taking all of these factors into account, there was a net source of $0.7 billion in the first six months of 2002-03, compared to a net source of $0.5 billion in the same period in 2001-02.

With a budgetary surplus of $7.8 billion, a net requirement of $13.6 billion from non-budgetary transactions and a net source of $0.7 billion from foreign exchange transactions, there was a net financial requirement of $5.1 billion in the April to September 2002 period, compared to a net source of $4.7 billion in the same period last year.

Net borrowings down $2.9 billion for April to September 2002

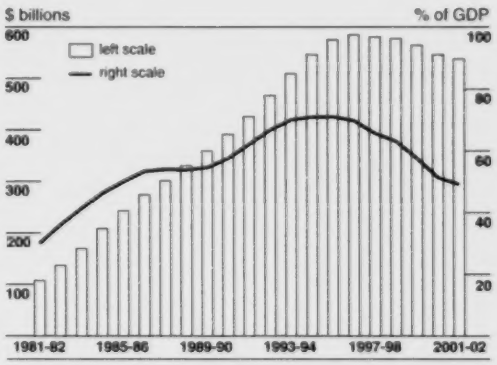
To finance this net financial requirement of $5.1 billion, the Government reduced its cash balances by $8.0 billion to $3.9 billion. This also allowed it to reduce its holding of market debt by $2.9 billion to the end of September 2002. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.

Budgetary balance



Sources: *Public Accounts of Canada* and Statistics Canada.

Net debt



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The Fiscal Monitor

A Publication of the Department of Finance

Highlights

October 2002: budgetary surplus of $126 million

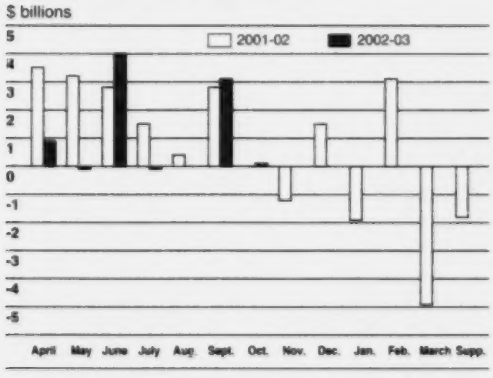
There was a budgetary surplus of $126 million in October 2002, compared to a deficit of $42 million in October 2001. All of the year-over-year improvement was due to lower public debt charges (down $204 million), as budgetary revenues were marginally lower (down $14 million) and program spending was marginally higher (up $22 million).

April to October 2002: budgetary surplus of $7.9 billion

The budgetary surplus is estimated at $7.9 billion for the April to October 2002 period, down $6.2 billion from the surplus of $14.1 billion reported in the same period of 2001-02. The decline in the year-over-year surplus is largely attributable to developments affecting personal and corporate income tax revenues with respect to the 2001 tax year. This deterioration reflects the decline in the stock market in 2001, which resulted in higher refunds and lower settlement payments in April and May 2002, and higher corporate income tax refunds, as corporations are applying losses experienced in 2001 to taxes paid in previous years.

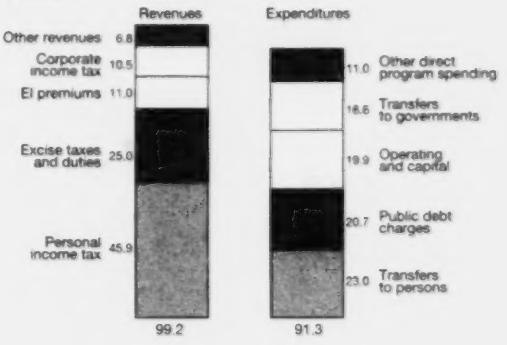
The results for 2002-03 are also affected by stronger-than-expected goods and services tax (GST) revenue growth, which has increased at a faster rate than the growth in the applicable tax base, attributable primarily to a decline in GST refunds. As GST refunds typically closely mirror developments in gross collections, net GST revenues, and hence the budgetary surplus, may be somewhat overstated in the year-to-date results. It is expected that over the balance of the year, GST refunds will more closely reflect gross collections, bringing net GST revenues more in line with the growth in the applicable GST tax base. Taking this into account, the results to date are consistent with the estimated budgetary surplus for the year as a whole of $4.0 billion presented in the October 30 *Economic and Fiscal Update*.

Monthly surplus and deficit



Revenues and expenditures

(April to October 2002)



Department of Finance Canada
Ministère des Finances Canada
Canada

Table 1
Summary statement of transactions

	October		April to October	
	2001	2002	2001-02	2002-03
	($ millions)			
Budgetary transactions				
Revenues	13,520	13,506	103,772	99,201
Program spending	-10,275	-10,297	-66,554	-70,558
Operating surplus	3,245	3,209	37,218	28,643
Public debt charges	-3,287	-3,083	-23,088	-20,748
Budgetary balance (deficit/surplus)	-42	126	14,130	7,895
Non-budgetary transactions	-1,830	-403	-11,829	-13,989
Financial requirements/source (excluding foreign exchange transactions)	-1,872	-277	2,301	-6,094
Foreign exchange transactions	-1,010	-1,217	-512	-519
Net financial balance	-2,882	-1,494	1,789	-6,613
Net change in borrowings	4,546	757	-9,708	-2,148
Net change in cash balances	1,664	-737	-7,919	-8,761
Cash balance at end of period			5,259	3,189

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds. Estimates for 2001-02 have been revised from those previously published.

October 2002: budgetary results

On a year-over-year basis, the budgetary balance increased by $168 million, from a deficit of $42 million in October 2001 to a surplus of $126 million in October 2002. Budgetary revenues declined by $14 million, or 0.1 per cent, in October 2002 on a year-over-year basis, as higher tax revenues were more than offset by lower non-tax revenues.

- Personal income tax revenues were up $0.2 billion, or 4.2 per cent, primarily due to higher monthly deductions from employment income, reflecting the strong growth in employment, and lower refunds.
- Corporate income tax revenues were down $0.1 billion, or 6.4 per cent, due to both lower instalment payments and higher refunds.
- Employment insurance (EI) premium revenues were up slightly, as the impact of the growth in the number of people employed and therefore paying premiums is offsetting the effect of the decline in premium rates (the employee rate for 2002 is $2.20 per $100 of insurable earnings compared to $2.25 in 2001).
- Excise taxes and duties were up marginally. However, there were large differences among the major components. GST revenues declined 8.1 per cent, reflecting both lower gross collections and higher refunds. Customs import duties were also lower. In contrast, energy taxes and other excise taxes and duties were both up strongly. The increase in energy taxes was primarily attributable to the timing of receipts, which depressed revenues in October 2001. The increase in other excise taxes and duties was primarily due to the increase in tobacco excise taxes.
- Non-tax revenues were down $0.2 billion, reflecting the timing of receipts. In September 2002 they were up sharply on a year-over-year basis.

Table 2

Budgetary revenues

	October			April to October		
	2001	2002	Change	2001-02	2002-03	Change
	($ millions)		(%)	($ millions)		(%)
Income taxes						
Personal income tax	5,700	5,940	4.2	49,718	45,924	-7.6
Corporate income tax	1,459	1,366	-6.4	13,832	10,502	-24.1
Other income tax revenue	378	380	0.5	2,065	2,031	-1.6
Total income tax	7,537	7,686	2.0	65,615	58,457	-10.9
Employment insurance premium revenues	1,194	1,225	2.6	11,009	11,001	-0.1
Excise taxes and duties						
Goods and services tax	3,172	2,916	-8.1	15,269	17,348	13.6
Customs import duties	331	274	-17.2	1,777	1,892	6.5
Sales and excise taxes	509	811	59.3	5,150	5,587	8.5
Air Travellers Security Charge		44			195	
Total excise taxes and duties	4,012	4,045	0.8	22,196	25,022	12.7
Total tax revenues	12,743	12,956	1.7	98,820	94,480	-4.4
Non-tax revenues	777	550	-29.2	4,952	4,721	-4.7
Total budgetary revenues	13,520	13,506	-0.1	103,772	99,201	-4.4

On a year-over-year basis, program spending was up $22 million, or 0.2 per cent, as lower direct program spending and transfers to persons were offset by higher transfers to other levels of government.

- Transfers to persons declined 0.5 per cent due to lower EI benefits, as elderly benefits increased by 3.6 per cent. The year-over-year decline in EI benefits is primarily attributable to the timing of benefit payments in October 2002.
- Transfers to other levels of government were up 4.1 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST). This increase reflects the September 2000 agreement reached by first ministers to increase base funding from $17.3 billion in 2001-02 to $18.6 billion in 2002-03.
- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, declined 1.2 per cent. The monthly fluctuations in this component are due in large part to the timing of payments. Last month, a year-over-year increase of 16.0 per cent was recorded.

Public debt charges, on a year-over year basis, declined $0.2 billion, or 6.2 per cent, due to a decline in the stock of interest-bearing debt and a lower average effective interest rate on that debt.

April to October 2002: budgetary results

Over the first seven months of fiscal year 2002-03, the budgetary surplus was estimated at $7.9 billion, compared to a surplus of $14.1 billion reported in the same period of 2001-02. This decline reflects lower budgetary revenues, largely attributable to developments related to the 2001 tax year, and higher program spending. In contrast, public debt charges were lower.

Table 3

Budgetary expenditures

	October			April to October		
	2001	2002	Change	2001-02	2002-03	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,137	2,213	3.6	14,638	15,272	4.3
Employment insurance benefits	1,076	983	-8.6	6,973	7,773	11.5
Total	3,213	3,196	-0.5	21,611	23,045	6.6
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	10,092	10,850	7.5
Fiscal transfers	1,046	1,042	-0.4	7,281	7,261	-0.3
Alternative Payments for Standing Programs	-200	-210	5.0	-1,400	-1,471	5.1
Total	2,288	2,382	4.1	15,973	16,640	4.2
Direct program spending						
Subsidies and other transfers						
Agriculture	40	29	-27.5	504	258	-48.8
Foreign Affairs	245	130	-46.9	879	750	-14.7
Health	107	101	-5.6	698	818	17.2
Human Resources Development	139	132	-5.0	764	771	0.9
Indian and Northern Development	313	308	-1.6	2,442	2,347	-3.9
Industry and Regional Development	201	261	29.9	808	945	17.0
Veterans Affairs	121	141	16.5	868	982	13.1
Other	184	112	-39.1	1,247	1,164	-6.7
Total	1,350	1,214	-10.1	8,210	8,035	-2.1
Payments to Crown corporations						
Canadian Broadcasting Corporation	83	92	10.8	648	665	2.6
Canada Mortgage and Housing Corporation	158	149	-5.7	1,106	1,135	2.6
Other	185	250	35.1	1,037	1,185	14.3
Total	426	491	15.3	2,791	2,985	7.0
Operating and capital expenditures						
Defence	787	893	13.5	5,026	5,581	11.0
All other departmental expenditures	2,211	2,121	-4.1	12,943	14,272	10.3
Total	2,998	3,014	0.5	17,969	19,853	10.5
Total direct program spending	4,774	4,719	-1.2	28,970	30,873	6.6
Total program expenditures	10,275	10,297	0.2	66,554	70,558	6.0
Public debt charges	3,287	3,083	-6.2	23,088	20,748	-10.1
Total budgetary expenditures	13,562	13,380	-1.3	89,642	91,306	1.9
Memorandum item:						
Total transfers	6,851	6,792	-0.9	45,794	47,720	4.2

Over the first seven months of 2002-03, budgetary revenues were down $4.6 billion, or 4.4 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections were down $3.8 billion, or 7.6 per cent. Virtually all of this decline is attributable to lower final tax payments and higher refunds with respect to the 2001 tax year, reflecting weakness in the stock market and the associated lower net capital gains realizations. Quarterly instalment payments were also lower, as these payments are now largely based on tax liabilities for 2001. However, it should be noted that the results for the same period in 2001 were affected by the extraordinary stock market gains in 2000, which resulted in record final tax settlement payments in April and May 2001. The results to date were also dampened by the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement* and *Budget Update*. Partially offsetting these impacts were higher taxes associated with increases in employment income.
- Corporate income tax revenues were down $3.3 billion, or 24.1 per cent, primarily due to higher refunds pertaining to previous years' taxes paid. In addition, monthly instalment payments are lower as they are largely based on 2001 tax liabilities, a year in which corporate profits declined.
- EI premium revenues were down marginally, primarily due to the lower premium rates in effect for 2002.
- Excise taxes and duties increased by $2.8 billion, or 12.7 per cent, primarily reflecting higher GST revenues, customs import duties and tobacco excise taxes and duties, as well as the introduction of the Air Travellers Security Charge. GST revenues were up 13.6 per cent compared to an increase in the applicable tax base – consumer expenditures – of about 4 per cent. The difference in growth rates is largely attributable to a decline in refunds, which appears to be overstating the underlying increase in GST revenues. Traditionally, GST refunds move closely in line with the growth in gross GST collections. It is expected that over the balance of the year, GST refunds will more closely reflect the changes in gross GST collections, bringing net GST revenues more in line with the growth in the applicable GST tax base.
- Non-tax revenues were down 4.7 per cent from the same period last year.

Over the first seven months of 2002-03, program spending increased by $4.0 billion, or 6.0 per cent, compared to the same period last year.

- Transfers to persons were up 6.6 per cent, reflecting both higher elderly and EI benefits. The increase in elderly benefits reflects an increase in the number of people eligible to receive benefits as well as higher average benefits, which are adjusted quarterly to reflect changes in consumer prices. The increase in EI benefits is attributable to the lagged effects of the economic slowdown in 2001 and the impact of program enhancements, including the extension of and related changes to parental benefits.
- Transfers to other levels of government were up 4.2 per cent due to higher cash transfers under the CHST. Entitlements under the fiscal transfer programs were virtually unchanged, primarily reflecting the timing of payments.
- Direct program spending increased by 6.6 per cent. Subsidies and other transfers were slightly lower, primarily due to the timing of payments. Payments to Crown corporations were up 7.0 per cent. Departmental and agency operating and capital spending was up 10.5 per cent, in part due to the implementation of initiatives announced in the December 2001 budget.

Public debt charges declined by $2.3 billion, or 10.1 per cent, reflecting both a reduction in the stock of interest-bearing debt and a lower average effective interest rate on that debt.

Table 4

The budgetary balance and financial requirements/source

	October		April to October	
	2001	2002	2001-02	2002-03
		($ millions)		
Budgetary balance (deficit/surplus)	-42	126	14,130	7,895
Loans, investments and advances				
Crown corporations	24	14	379	196
Other	-423	-148	-930	-565
Total	-399	-134	-551	-369
Specified purpose accounts				
Canada Pension Plan Account	-745	-251	-1,363	-930
Superannuation accounts	-104	233	-768	-884
Other	-17	-6	16	-136
Total	-866	-24	-2,115	-1,950
Other transactions	-565	-245	-9,163	-11,670
Total non-budgetary transactions	-1,830	-403	-11,829	-13,989
Financial requirements/source (excluding foreign exchange transactions)	-1,872	-277	2,301	-6,094
Foreign exchange transactions	-1,010	-1,217	-512	-519
Net financial balance	-2,882	-1,494	1,789	-6,613

Table 5

Net financial balance and net borrowings

	October		April to October	
	2001	2002	2001-02	2002-03
		($ millions)		
Net financial balance	-2,882	-1,494	1,789	-6,613
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	1,435	-1,693	-4,548	-10,011
Canada Savings Bonds	-120	-105	-469	-635
Treasury bills	2,800	1,650	-1,200	9,650
Other	0	-1	-9	-14
Total	4,115	-149	-6,226	-1,010
Payable in foreign currencies				
Marketable bonds	0	0	-1,576	-1,594
Notes and loans	0		-41	
Canada bills	431	906	-1,692	456
Canada notes	0	0	-173	0
Total	431	906	-3,482	-1,138
Net change in borrowings	4,546	757	-9,708	-2,148
Change in cash balance	1,664	-737	-7,919	-8,761

Table 6

Condensed statement of assets and liabilities

	March 31, 2002	October 31, 2002	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	40,679	31,486	-9,193
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	126,921	126,037	-884
Canada Pension Plan (net of securities)	6,770	5,840	-930
Other pension and other accounts	7,469	7,333	-136
Total pension and other accounts	141,160	139,209	-1,951
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,843	283,833	-10,010
Treasury bills	94,039	103,689	9,650
Canada Savings Bonds	23,966	23,331	-635
Other	3,391	3,377	-14
Subtotal	415,239	414,230	-1,009
Payable in foreign currencies	27,032	25,893	-1,139
Total unmatured debt	442,271	440,123	-2,147
Total interest-bearing debt	583,431	579,332	-4,098
Total liabilities	624,110	610,818	-13,291
Assets			
Cash and accounts receivable	16,829	10,545	-6,284
Foreign exchange accounts	52,046	52,565	519
Loans, investments and advances (net of allowances)	18,746	19,115	369
Total assets	87,621	82,225	-5,396
Accumulated deficit (net public debt)	536,489	528,593	-7,895

Financial requirement of $6.1 billion (excluding foreign exchange transactions) for April to October 2002

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $14.0 billion in the first seven months of 2002-03, compared to a net requirement of $11.8 billion in the same period in 2001-02. Part of the higher requirement is attributable to lower transfers to the Tax Collection Accounts due to lower personal and corporate income tax revenues over the first seven months of this year compared to the same period last year.

As a result, with a budgetary surplus of $7.9 billion and a net requirement of $14.0 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of $6.1 billion in the April to October 2002 period, compared to a financial source of $2.3 billion in the same period last year.

Net financial requirement of $6.6 billion for April to October 2002

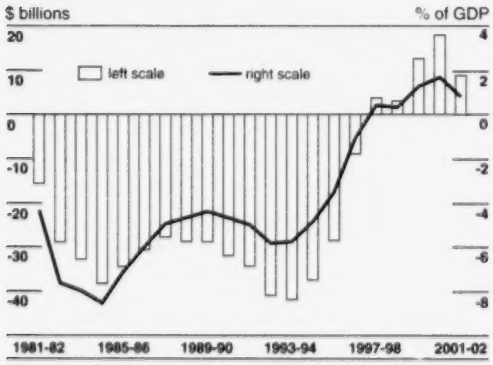
Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account (EFA). The objectives of the EFA are to provide general foreign currency liquidity for the Government and promote orderly conditions in the foreign exchange market. The EFA contains foreign currency investments, the Government's gold holdings and assets related to Canada's commitment to the International Monetary Fund (IMF). Increases in the level of the reserves through borrowings, contributions to the IMF, and/or selling of Canadian dollars represent a requirement. Conversely, decreases in the level of reserves represent a source of funds. Taking all of these factors into account, there was a net requirement of $0.5 billion in the first seven months of 2002-03, unchanged from the net requirement in the same period in 2001-02.

With a budgetary surplus of $7.9 billion, a net requirement of $14.0 billion from non-budgetary transactions and a net requirement of $0.5 billion from foreign exchange transactions, there was a net financial requirement of $6.6 billion in the April to October 2002 period, compared to a net source of $1.8 billion in the same period last year.

Net borrowings down $2.1 billion for April to October 2002

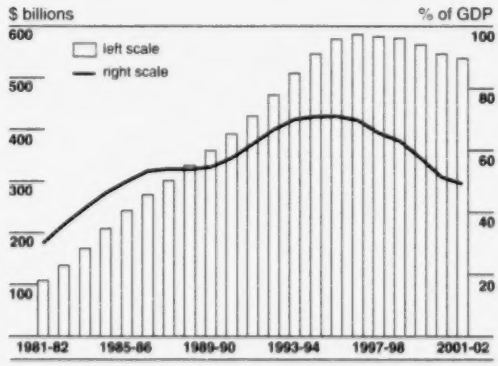
To finance this net financial requirement of $6.6 billion, the Government reduced its cash balances by $8.8 billion to $3.2 billion. This also allowed it to reduce its holding of market debt by $2.1 billion to the end of October 2002. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.

Budgetary balance



Sources: *Public Accounts of Canada* and Statistics Canada.

Net debt



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The Fiscal Monitor

A Publication of the Department of Finance

Highlights

November 2002: budgetary surplus of $332 million

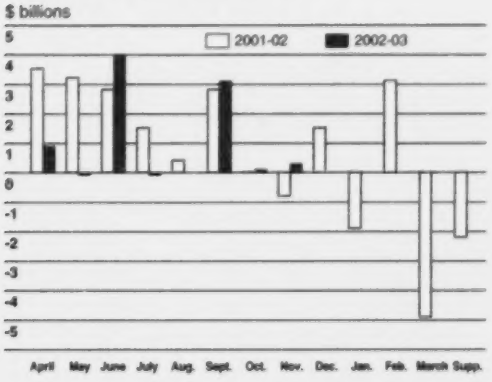
There was a budgetary surplus of $332 million in November 2002, compared to a deficit of $844 million in November 2001. This year-over-year improvement is primarily attributable to higher budgetary revenues (up $1.3 billion), partly reflecting the timing of receipts between November and December as well as processing delays at the border in the aftermath of the September 11, 2001, terrorist attacks, which depressed customs receipts in November 2001. Public debt charges were down $0.4 billion, while program spending increased by $0.5 billion.

April to November 2002: budgetary surplus of $8.2 billion

The budgetary surplus is estimated at $8.2 billion for the April to November 2002 period, down $5.1 billion from the surplus of $13.3 billion reported in the same period of 2001-02. The decline in the year-over-year surplus is largely attributable to developments affecting personal and corporate income tax revenues with respect to the 2001 tax year. This deterioration reflects the decline in the stock market in 2001, which resulted in higher refunds and lower settlement payments in April and May 2002, and higher corporate income tax refunds, as corporations are applying losses experienced in 2001 to taxes paid in previous years.

The results for 2002-03 are also affected by stronger-than-expected goods and services tax (GST) revenue growth, which has increased at a faster rate than the growth in the applicable tax base, attributable primarily to a decline in GST refunds. As GST refunds typically closely mirror developments in gross collections, it is expected that over the balance of the year, GST refunds will more closely reflect changes in gross collections, bringing net GST revenues more in line with the growth in the applicable GST tax base.

Monthly surplus and deficit



Revenues and expenditures

(April to November 2002)

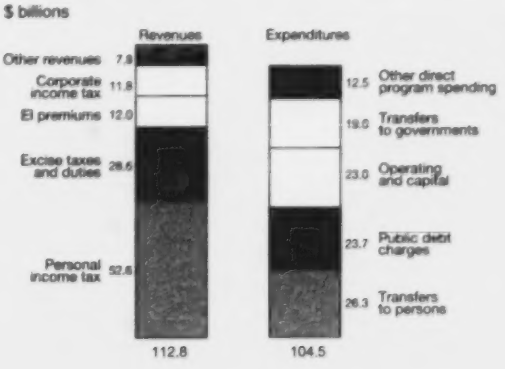


Table 1
Summary statement of transactions

	November		April to November	
	2001	2002	2001-02	2002-03
	($ millions)			
Budgetary transactions				
Revenues	12,276	13,558	116,048	112,763
Program spending	-9,801	-10,280	-76,358	-80,841
Operating surplus	2,475	3,278	39,690	31,922
Public debt charges	-3,319	-2,946	-26,406	-23,694
Budgetary balance (deficit/surplus)	-844	332	13,284	8,228
Non-budgetary transactions	-393	509	-12,223	-13,482
Financial requirements/source (excluding foreign exchange transactions)	-1,237	841	1,061	-5,254
Foreign exchange transactions	10	1,070	-502	551
Net financial balance	-1,227	1,911	559	-4,703
Net change in borrowings	9,568	7,138	-141	4,990
Net change in cash balances	8,341	9,049	418	287
Cash balance at end of period			13,600	12,236

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds. Estimates for 2001-02 have been revised from those previously published.

November 2002: budgetary results

On a year-over-year basis, the budgetary balance increased by $1.2 billion, from a deficit of $0.8 billion in November 2001 to a surplus of $0.3 billion in November 2002. Budgetary revenues increased by $1.3 billion, or 10.4 per cent, in November 2002 on a year-over-year basis, in large part due to the timing of receipts.

- Personal income tax revenues were up $0.5 billion, or 8.2 per cent, primarily due to higher monthly deductions from employment income. Part of this increase is attributable to the timing of receipts between November and December, which is expected to be reversed in December 2002.
- Corporate income tax revenues were up $0.1 billion, or 6.6 per cent, reversing the year-over-year decline reported last month.
- Employment insurance (EI) premium revenues were up slightly, as the impact of the growth in the number of people employed and therefore paying premiums offset the effect of the decline in premium rates (the employee rate for 2002 is $2.20 per $100 of insurable earnings compared to $2.25 in 2001).
- Excise taxes and duties were up strongly, $0.6 billion or 18.9 per cent, primarily due to higher GST revenues and customs import duties. This is largely attributable to the impact of processing delays at the border, which depressed customs receipts in November 2001. The increase in other excise taxes and duties is primarily due to the increase in tobacco excise taxes and higher energy tax revenues.
- Non-tax revenues were up slightly on a year-over-year basis.

On a year-over-year basis, program spending was up $0.5 billion, or 4.9 per cent.

- Transfers to persons increased 1.8 per cent, as higher elderly benefits more than offset the decline in EI benefits. The decline in EI benefits is attributable to a decline in the number of

Table 2
Budgetary revenues

	November			April to November		
	2001	2002	Change	2001-02	2002-03	Change
	($ millions)		(%)	($ millions)		(%)
Income taxes						
Personal income tax	6,127	6,629	8.2	55,845	52,554	-5.9
Corporate income tax	1,253	1,336	6.6	15,084	11,838	-21.5
Other income tax revenue	276	369	33.7	2,342	2,400	2.5
Total income tax	7,656	8,334	8.9	73,271	66,792	-8.8
Employment insurance premium revenues	1,036	1,045	0.9	12,046	12,047	0.0
Excise taxes and duties						
Goods and services tax	2,106	2,445	16.1	17,375	19,794	13.9
Customs import duties	174	276	58.6	1,951	2,168	11.1
Sales and excise taxes	709	798	12.6	5,861	6,383	8.9
Air Travellers Security Charge		35			230	
Total excise taxes and duties	2,989	3,554	18.9	25,187	28,575	13.5
Total tax revenues	11,681	12,933	10.7	110,504	107,414	-2.8
Non-tax revenues	595	625	5.0	5,544	5,349	-3.5
Total budgetary revenues	12,276	13,558	10.4	116,048	112,763	-2.8

benefit weeks, as both the number of beneficiaries and the average weekly benefit were higher.

- Transfers to other levels of government were up 6.6 per cent, primarily reflecting higher cash transfers under the Canada Health and Social Transfer (CHST). This increase reflects the September 2000 agreement reached by first ministers to increase base funding from $17.3 billion in 2001-02 to $18.6 billion in 2002-03.
- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, was up 6.3 per cent. The monthly fluctuations in this component are due in large part to the timing of payments. Last month there was a year-over-year decline.

Public debt charges, on a year-over year basis, declined $0.4 billion, or 11.2 per cent, due to a decline in the average effective interest rate, as the stock of interest-bearing debt was higher.

April to November 2002: budgetary results

Over the first eight months of fiscal year 2002-03, the budgetary surplus is estimated at $8.2 billion, compared to a surplus of $13.3 billion reported in the same period of 2001-02. This decline reflects lower budgetary revenues, largely attributable to developments related to the 2001 tax year, and higher program spending. In contrast, public debt charges were lower.

Over the first eight months of 2002-03, budgetary revenues were down $3.3 billion, or 2.8 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections were down $3.3 billion, or 5.9 per cent. Virtually all of this decline is attributable to lower final tax payments and higher refunds with respect to the 2001 tax year, reflecting weakness in the stock market and the associated lower net capital gains realizations. Quarterly instalment payments were also lower, as these payments are now largely based on tax liabilities for 2001.

Table 3

Budgetary expenditures

	November			April to November		
	2001	2002	Change	2001-02	2002-03	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,137	2,209	3.4	16,775	17,481	4.2
Employment insurance benefits	1,073	1,059	-1.3	8,046	8,832	9.8
Total	3,210	3,268	1.8	24,821	26,313	6.0
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	11,533	12,400	7.5
Fiscal transfers	1,034	1,051	1.6	8,315	8,313	0.0
Alternative Payments for Standing Programs	-233	-210	-9.9	-1,632	-1,681	3.0
Total	2,243	2,391	6.6	18,216	19,032	4.5
Direct program spending						
Subsidies and other transfers						
Agriculture	21	75	257.1	525	333	-36.6
Foreign Affairs	121	114	-5.8	1,000	864	-13.6
Health	153	155	1.3	851	973	14.3
Human Resources Development	142	119	-16.2	906	890	-1.8
Indian and Northern Development	290	300	3.4	2,733	2,647	-3.1
Industry and Regional Development	151	70	-53.6	958	1,015	5.9
Veterans Affairs	132	140	6.1	1,000	1,122	12.2
Other	216	198	-8.3	1,462	1,361	-6.9
Total	1,226	1,171	-4.5	9,435	9,205	-2.4
Payments to Crown corporations						
Canadian Broadcasting Corporation	70	89	27.1	718	754	5.0
Canada Mortgage and Housing Corporation	183	125	-31.7	1,289	1,260	-2.2
Other	175	129	-26.3	1,213	1,318	8.7
Total	428	343	-19.9	3,220	3,332	3.5
Operating and capital expenditures						
Defence	869	803	-7.6	5,896	6,384	8.3
All other departmental expenditures	1,825	2,304	26.2	14,770	16,575	12.2
Total	2,694	3,107	15.3	20,666	22,959	11.1
Total direct program spending	4,348	4,621	6.3	33,321	35,496	6.5
Total program expenditures	9,801	10,280	4.9	76,358	80,841	5.9
Public debt charges	3,319	2,946	-11.2	26,406	23,694	-10.3
Total budgetary expenditures	13,120	13,226	0.8	102,764	104,535	1.7
Memorandum item:						
Total transfers	6,679	6,830	2.3	52,472	54,550	4.0

However, it should be noted that the results for the same period in 2001 were affected by the extraordinary stock market gains in 2000, which resulted in record final tax settlement payments in April and May 2001. The results to date were also dampened by the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. Partially offsetting these impacts were higher taxes associated with increases in employment income.

- Corporate income tax revenues were down $3.2 billion, or 21.5 per cent, primarily due to higher refunds pertaining to previous years' taxes paid. In addition, monthly instalment payments are lower as they are largely based on 2001 tax liabilities, a year in which corporate profits declined.
- EI premium revenues were virtually unchanged, as lower premium rates offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased by $3.4 billion, or 13.5 per cent, primarily reflecting higher GST revenues, customs import duties and tobacco excise taxes and duties, as well as the introduction of the Air Travellers Security Charge. GST revenues were up 13.9 per cent compared to an increase in the applicable tax base – consumer expenditures – of about 6 per cent. The difference in growth rates is largely attributable to a decline in refunds, which appears to be overstating the underlying increase in GST revenues. Traditionally, GST refunds move closely in line with the growth in gross GST collections. It is expected that over the balance of the year, GST refunds will more closely reflect the changes in gross GST collections, bringing net GST revenues more in line with the growth in the applicable GST tax base.
- Non-tax revenues were down 3.5 per cent from the same period of 2001-02.

Over the first eight months of 2002-03, program spending increased by $4.5 billion, or 5.9 per cent, compared to the same period of 2001-02.

- Transfers to persons were up 6.0 per cent, reflecting both higher elderly and EI benefits. The increase in elderly benefits reflects the increase in the number of people eligible to receive benefits as well as higher average benefits, which are adjusted quarterly to reflect changes in consumer prices. The increase in EI benefits is attributable to the lagged effects of the economic slowdown in 2001 and the impact of program enhancements, including the extension of and related changes to parental benefits.
- Transfers to other levels of government were up 4.5 per cent due to higher cash transfers under the CHST. Entitlements under the fiscal transfer programs were unchanged, primarily reflecting the timing of payments.
- Direct program spending increased by 6.5 per cent. Subsidies and other transfers were slightly lower, primarily due to the timing of payments. Payments to Crown corporations were up 3.5 per cent. Departmental and agency operating and capital spending was up 11.1 per cent, in part due to the implementation of initiatives announced in the December 2001 budget.

Public debt charges declined by $2.7 billion, or 10.3 per cent, reflecting a decline in the average effective interest rate on interest-bearing debt.

Financial requirement of $5.3 billion (excluding foreign exchange transactions) for April to November 2002

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

Table 4

The budgetary balance and financial requirements/source

	November		April to November	
	2001	2002	2001-02	2002-03
		($ millions)		
Budgetary balance (deficit/surplus)	-844	332	13,284	8,228
Loans, investments and advances				
Crown corporations	50	57	428	254
Other	-3	-127	-931	-693
Total	47	-70	-503	-439
Specified purpose accounts				
Canada Pension Plan Account	-584	-199	-1,947	-1,129
Superannuation accounts	-743	148	-1,510	-736
Other	62	-44	78	-182
Total	-1,265	-95	-3,379	-2,047
Other transactions	825	674	-8,341	-10,996
Total non-budgetary transactions	-393	509	-12,223	-13,482
Financial requirements/source (excluding foreign exchange transactions)	-1,237	841	1,061	-5,254
Foreign exchange transactions	10	1,070	-502	551
Net financial balance	-1,227	1,911	559	-4,703

Table 5

Net financial balance and net borrowings

	November		April to November	
	2001	2002	2001-02	2002-03
		($ millions)		
Net financial balance	-1,227	1,911	559	-4,703
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	5,351	6,552	802	-3,459
Canada Savings Bonds	-2,043	-1,019	-2,512	-1,654
Treasury bills	6,700	2,750	5,500	12,400
Other	-12	-3	-21	-17
Total	9,996	8,280	3,769	7,270
Payable in foreign currencies				
Marketable bonds	0	0	-1,576	-1,594
Notes and loans	0		-41	
Canada bills	-428	-1,142	-2,120	-686
Canada notes	0	0	-173	0
Total	-428	-1,142	-3,910	-2,280
Net change in borrowings	9,568	7,138	-141	4,990
Change in cash balance	8,341	9,049	418	287

Table 6
Condensed statement of assets and liabilities

	March 31, 2002	November 30, 2002	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	40,679	31,675	-9,004
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	126,921	126,185	-736
Canada Pension Plan (net of securities)	6,770	5,641	-1,129
Other pension and other accounts	7,469	7,287	-182
Total pension and other accounts	141,160	139,113	-2,047
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,843	290,384	-3,459
Treasury bills	94,039	106,439	12,400
Canada Savings Bonds	23,966	22,312	-1,654
Other	3,391	3,374	-17
Subtotal	415,239	422,509	7,270
Payable in foreign currencies	27,032	24,751	-2,281
Total unmatured debt	442,271	447,260	4,989
Total interest-bearing debt	583,431	586,373	2,942
Total liabilities	624,110	618,048	-6,063
Assets			
Cash and accounts receivable	16,829	19,108	2,279
Foreign exchange accounts	52,046	51,495	-551
Loans, investments and advances (net of allowances)	18,746	19,185	439
Total assets	87,621	89,788	2,167
Accumulated deficit (net public debt)	536,489	528,260	-8,228

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $13.5 billion in the first eight months of 2002-03, compared to a net requirement of $12.2 billion in the same period of 2001-02. Part of the higher requirement is attributable to lower transfers to the Tax Collection Accounts due to lower personal and corporate income tax revenues over the first eight months of this year compared to the same period of 2001-02.

As a result, with a budgetary surplus of $8.2 billion and a net requirement of $13.5 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of $5.3 billion in the April to November 2002 period, compared to a financial source of $1.1 billion in the same period of 2001-02.

Net financial requirement of $4.7 billion for April to November 2002

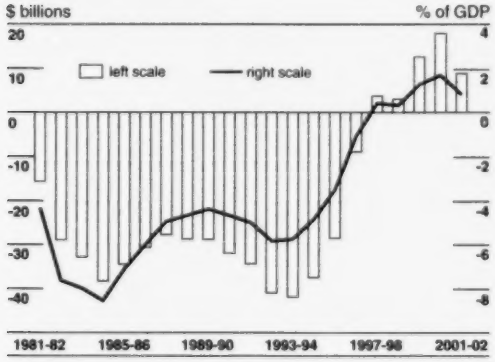
Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account (EFA). The objectives of the EFA are to provide general foreign currency liquidity for the Government and promote orderly conditions in the foreign exchange market. The EFA contains foreign currency investments, the Government's gold holdings and assets related to Canada's commitment to the International Monetary Fund (IMF). Increases in the level of the reserves through borrowings, contributions to the IMF, and/or selling of Canadian dollars represent a requirement. Conversely, decreases in the level of reserves represent a source of funds. Taking all of these factors into account, there was a net source of $0.6 billion in the first eight months of 2002-03, compared to a net requirement of $0.5 billion in the same period of 2001-02.

With a budgetary surplus of $8.2 billion, a net requirement of $13.5 billion from non-budgetary transactions and a net source of $0.6 billion from foreign exchange transactions, there was a net financial requirement of $4.7 billion in the April to November 2002 period, compared to a net source of $0.6 billion in the same period of 2001-02.

Net borrowings up $5.0 billion for April to November 2002

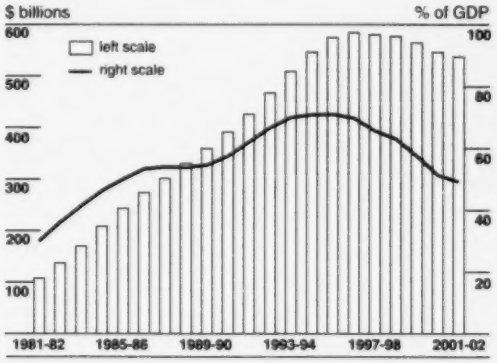
To finance this net financial requirement of $4.7 billion, the Government increased its net borrowings by $5.0 billion. In addition, it increased its cash balances by $0.3 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.

Budgetary balance



Sources: *Public Accounts of Canada* and Statistics Canada.

Net debt



Sources: *Public Accounts of Canada* and Statistics Canada.

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The Fiscal Monitor

A Publication of the Department of Finance

Highlights

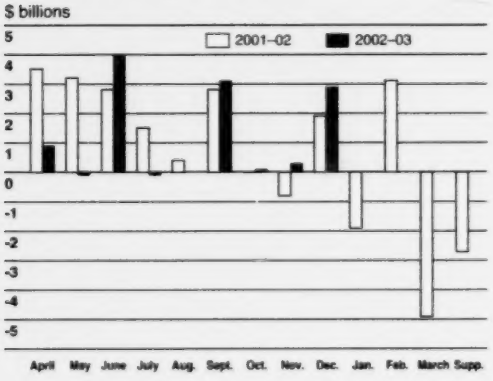
December 2002: budgetary surplus of $2.9 billion

There was a budgetary surplus of $2.9 billion in December 2002, compared to a surplus of $1.9 billion in December 2001. Typically, a surplus is recorded in December, reflecting the inclusion of quarterly personal income tax remittances and final corporate income tax payments from those corporations with a taxation year ending October 31. The year-over-year improvement in the budgetary balance is entirely attributable to a record year-over-year increase in goods and services tax (GST) revenues, up $1.1 billion, or 60.1 per cent, in part reflecting the timing of receipts between December and January, which is expected to be reversed next month. Total budgetary expenditures were up slightly as higher program spending was largely offset by lower public debt charges.

April to December 2002: budgetary surplus of $11.2 billion

The budgetary surplus was estimated at $11.2 billion for the April to December 2002 period, down $4 billion from the surplus of $15.1 billion reported in the same period of 2001–02. The decline in the year-over-year surplus is largely attributable to developments affecting personal and corporate income tax revenues with respect to the 2001 tax year. This deterioration reflects the decline in the stock market in 2001, which resulted in higher refunds and lower settlement payments in April and May 2002, and higher corporate income tax refunds, as corporations are applying losses experienced in 2001 to taxes paid in previous years. The results for 2002–03 are also affected by stronger-than-expected GST revenue growth, which is due to both timing factors and a decline in GST refunds. It is expected that over the balance of the year, GST refunds will more closely reflect changes in gross collections, bringing net GST revenues more in line with the growth in the applicable GST tax base.

Monthly surplus and deficit



Revenues and expenditures

(April to December 2002)

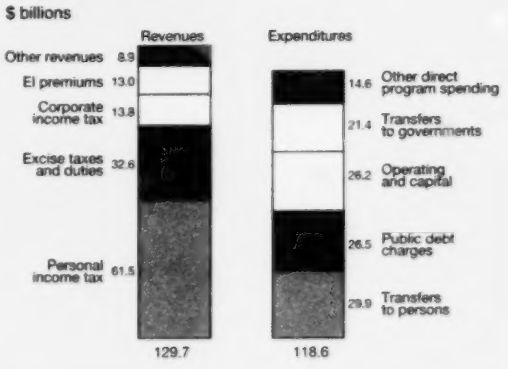


Table 1
Summary statement of transactions

	December		April to December	
	2001	2002	2001–02	2002–03
	($ millions)			
Budgetary transactions				
Revenues	15,681	16,968	131,729	129,730
Program spending	-10,616	-11,224	-86,975	-92,068
Operating surplus	5,065	5,744	44,754	37,662
Public debt charges	-3,206	-2,803	-29,612	-26,497
Budgetary balance (deficit/surplus)	1,859	2,941	15,142	11,165
Non-budgetary transactions	-3,466	-4,448	-15,692	-17,927
Financial requirements/source (excluding foreign exchange transactions)	-1,607	-1,507	-550	-6,762
Foreign exchange transactions	-142	741	-643	1,292
Net financial balance	-1,749	-766	-1,193	-5,470
Net change in borrowings	-6,858	-7,634	-6,997	-2,644
Net change in cash balances	-8,607	-8,400	-8,190	-8,114
Cash balance at end of period			4,992	3,834

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds. Estimates for 2001–02 have been revised from those previously published.

December 2002: budgetary results

On a year-over-year basis, the budgetary surplus increased by $1.1 billion in December 2002, with budgetary revenues up $1.3 billion, or 8.2 per cent.

- Personal income tax revenues were down $0.3 billion, or 3.2 per cent, primarily due to lower tax remittances from quarterly filers, as well as the timing of receipts between November and December, as noted in the November 2002 *Fiscal Monitor*.
- Corporate income tax revenues were up $0.2 billion, or 11.9 per cent, reflecting higher final payments from those corporations with a taxation year ending October 31.
- Employment insurance (EI) premium revenues were up slightly, as the impact of the growth in the number of people employed and therefore paying premiums offset the effect of the decline in premium rates (the employee rate for 2002 is $2.20 per $100 of insurable earnings compared to $2.25 in 2001).
- Excise taxes and duties were up strongly, $1.2 billion or 41.0 per cent, primarily due to higher GST revenues. Net GST revenues were affected by the timing of receipts between December and January, which is expected to be reversed in January 2003.
- Non-tax revenues were up 20.3 per cent on a year-over-year basis.

On a year-over-year basis, program spending was up $0.6 billion, or 5.7 per cent.

- Transfers to persons declined 2.2 per cent due to lower EI benefits, reflecting a decline in the number of people unemployed. Elderly benefit payments were up marginally.
- Transfers to other levels of government were up 6.6 per cent, primarily reflecting higher cash transfers under the Canada Health and Social Transfer (CHST). This increase reflects the September 2000 agreement reached by first ministers to increase base funding from $17.3 billion in 2001–02 to $18.6 billion in 2002–03.

Table 2
Budgetary revenues

	December			April to December		
	2001	2002	Change	2001–02	2002–03	Change
	($ millions)		(%)	($ millions)		(%)
Income taxes						
Personal income tax	9,191	8,896	-3.2	65,036	61,450	-5.5
Corporate income tax	1,728	1,933	11.9	16,812	13,771	-18.1
Other income tax revenue	311	359	15.4	2,653	2,759	4.0
Total income tax	11,230	11,188	-0.4	84,501	77,980	-7.7
Employment insurance premium revenues	952	985	3.5	12,998	13,032	0.3
Excise taxes and duties						
Goods and services tax	1,815	2,906	60.1	19,190	22,700	18.3
Customs import duties	295	241	-18.3	2,246	2,409	7.3
Sales and excise taxes	718	805	12.1	6,581	7,189	9.2
Air Travellers Security Charge		36			266	
Total excise taxes and duties	2,828	3,988	41.0	28,017	32,564	16.2
Total tax revenues	15,010	16,161	7.7	125,516	123,576	-1.5
Non-tax revenues	671	807	20.3	6,213	6,154	-0.9
Total budgetary revenues	15,681	16,968	8.2	131,729	129,730	-1.5

- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, was up 11.4 per cent. The monthly fluctuations in this component are due in large part to the timing of payments.

Public debt charges, on a year-over year basis, declined $0.4 billion, or 12.6 per cent, due to a decline in both the average effective interest rate and the stock of interest-bearing debt.

April to December 2002: budgetary results

Over the first nine months of fiscal year 2002–03, the budgetary surplus was estimated at $11.2 billion, compared to a surplus of $15.1 billion reported in the same period of 2001–02. This decline reflects lower budgetary revenues, largely attributable to developments related to the 2001 tax year, and higher program spending. In contrast, public debt charges were lower.

Over the first nine months of 2002–03, budgetary revenues were down $2.0 billion, or 1.5 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections were down $3.6 billion, or 5.5 per cent. Virtually all of this decline is attributable to lower final tax payments and higher refunds with respect to the 2001 tax year, reflecting weakness in the stock market and the associated lower net capital gains realizations. Quarterly instalment payments were also lower, as these payments are now largely based on tax liabilities for 2001. However, it should be noted that the results for the same period in 2001 were affected by the extraordinary stock market gains in 2000, which resulted in record final tax settlement payments in April and May 2001. The results to date were also dampened by the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. Partially offsetting these impacts were higher taxes associated with increases in employment income.

Table 3

Budgetary expenditures

	December			April to December		
	2001	2002	Change	2001–02	2002–03	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,151	2,161	0.5	18,926	19,642	3.8
Employment insurance benefits	1,497	1,408	-5.9	9,543	10,239	7.3
Total	3,648	3,569	-2.2	28,469	29,881	5.0
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	12,975	13,950	7.5
Fiscal transfers	1,048	1,067	1.8	9,363	9,380	0.2
Alternative Payments for Standing Programs	-233	-211	-9.4	-1,865	-1,892	1.4
Total	2,257	2,406	6.6	20,473	21,438	4.7
Direct program spending						
Subsidies and other transfers						
Agriculture	41	33	-19.5	566	366	-35.3
Foreign Affairs	169	197	16.6	1,169	1,060	-9.3
Health	79	79	0.0	929	1,051	13.1
Human Resources Development	103	201	95.1	1,008	1,091	8.2
Indian and Northern Development	323	348	7.7	3,055	2,994	-2.0
Industry and Regional Development	155	315	103.2	1,113	1,330	19.5
Veterans Affairs	130	140	7.7	1,130	1,263	11.8
Other	234	317	35.5	1,695	1,679	-0.9
Total	1,234	1,630	32.1	10,665	10,834	1.6
Payments to Crown corporations						
Canadian Broadcasting Corporation	133	82	-38.3	851	836	-1.8
Canada Mortgage and Housing Corporation	233	159	-31.8	1,522	1,419	-6.8
Other	170	174	2.4	1,382	1,492	8.0
Total	536	415	-22.6	3,755	3,747	-0.2
Operating and capital expenditures						
Defence	839	906	8.0	6,735	7,287	8.2
All other departmental expenditures	2,102	2,298	9.3	16,878	18,881	11.9
Total	2,941	3,204	8.9	23,613	26,168	10.8
Total direct program spending	4,711	5,249	11.4	38,033	40,749	7.1
Total program expenditures	10,616	11,224	5.7	86,975	92,068	5.9
Public debt charges	3,206	2,803	-12.6	29,612	26,497	-10.5
Total budgetary expenditures	13,822	14,027	1.5	116,587	118,565	1.7
Memorandum item:						
Total transfers	7,139	7,605	6.5	59,607	62,153	4.3

- Corporate income tax revenues were down $3.0 billion, or 18.1 per cent, primarily due to higher refunds pertaining to previous years' taxes paid.
- EI premium revenues were virtually unchanged, as lower premium rates offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased by $4.5 billion, or 16.2 per cent, primarily reflecting higher GST revenues, customs import duties and tobacco excise taxes and duties, as well as the introduction of the Air Travellers Security Charge. GST revenues were up 18.3 per cent compared to an increase in the applicable tax base—consumer expenditures—of about 6 per cent. The difference in growth rates is largely attributable to timing factors as well as a decline in refunds, which appears to be overstating the underlying increase in GST revenues. Traditionally, GST refunds move closely in line with the growth in gross GST collections. It is expected that GST revenues will be lower in January 2003 and that over the balance of the year, GST refunds will more closely reflect the changes in gross GST collections, bringing net GST revenues more in line with the growth in the applicable GST tax base.
- Non-tax revenues were down 0.9 per cent from the same period last year.

Over the first nine months of 2002–03, program spending increased by $5.1 billion, or 5.9 per cent, compared to the same period of 2001–02.

- Transfers to persons were up 5.0 per cent, reflecting both higher elderly and EI benefits. The increase in elderly benefits reflects an increase in the number of people eligible to receive benefits as well as higher average benefits, which are adjusted quarterly to reflect changes in consumer prices. The increase in EI benefits is attributable to the lagged effects of the economic slowdown in 2001 and the impact of program enhancements, including the extension of and related changes to parental benefits.
- Transfers to other levels of government were up 4.7 per cent due to higher cash transfers under the CHST. Entitlements under the fiscal transfer programs were unchanged, primarily reflecting the timing of payments.
- Direct program spending increased by 7.1 per cent. Subsidies and other transfers were up slightly. Payments to Crown corporations were down 0.2 per cent, primarily reflecting the timing of payments. Departmental and agency operating and capital spending was up 10.8 per cent, in part due to the implementation of initiatives announced in the December 2001 budget.

Public debt charges declined by $3.1 billion, or 10.5 per cent, reflecting a decline in the stock of interest-bearing debt as well as a lower average effective interest rate on that debt.

Financial requirement of $6.8 billion (excluding foreign exchange transactions) for April to December 2002

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Table 4

The budgetary balance and financial requirements/source

	December		April to December	
	2001	2002	2001–02	2002–03
		($ millions)		
Budgetary balance (deficit/surplus)	1,859	2,941	15,142	11,165
Loans, investments and advances				
Crown corporations	70	90	499	344
Other	-199	-292	-1,131	-985
Total	-129	-202	-632	-641
Specified purpose accounts				
Canada Pension Plan Account	-94	-140	-2,041	-1,269
Superannuation accounts	85	298	-1,425	-438
Other	-21	9	57	-173
Total	-30	167	-3,409	-1,880
Other transactions	-3,307	-4,413	-11,651	-15,406
Total non-budgetary transactions	-3,466	-4,448	-15,692	-17,927
Financial requirements/source (excluding foreign exchange transactions)	-1,607	-1,507	-550	-6,762
Foreign exchange transactions	-142	741	-643	1,292
Net financial balance	-1,749	-766	-1,193	-5,470

Table 5

Net financial balance and net borrowings

	December		April to December	
	2001	2002	2001–02	2002–03
		($ millions)		
Net financial balance	-1,749	-766	-1,193	-5,470
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-6,663	-5,398	-5,860	-8,857
Canada Savings Bonds	-107	-3	-2,618	-1,657
Treasury bills	800	-2,250	6,300	10,150
Other	-1	-1	-22	-18
Total	-5,971	-7,652	-2,200	-382
Payable in foreign currencies				
Marketable bonds	0	5	-1,576	-1,589
Notes and loans	0		-41	
Canada bills	-887	13	-3,007	-673
Canada notes	0	0	-173	0
Total	-887	18	-4,797	-2,262
Net change in borrowings	-6,858	-7,634	-6,997	-2,644
Change in cash balance	-8,607	-8,400	-8,190	-8,114

Non-budgetary transactions resulted in a net requirement of $17.9 billion in the first nine months of 2002–03, compared to a net requirement of $15.7 billion in the same period of 2001–02. Part of the higher requirement is attributable to lower transfers to the Tax Collection Accounts due to lower personal and corporate income tax revenues this year compared to the same period of 2001–02. In addition, the timing of receipts resulted in a higher requirement this year.

As a result, with a budgetary surplus of $11.2 billion and a net requirement of $17.9 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of $6.8 billion in the April to December 2002 period, compared to a requirement of $0.5 billion in the same period of 2001–02.

Net financial requirement of $5.5 billion for April to December 2002

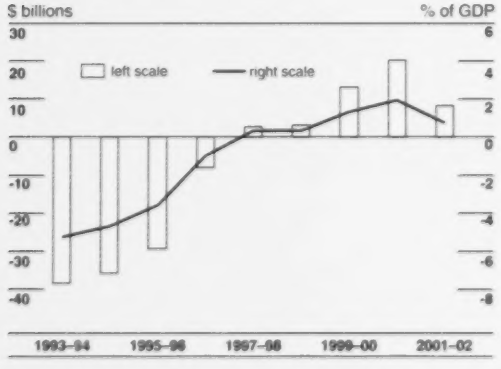
Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account (EFA). The objectives of the EFA are to provide general foreign currency liquidity for the Government and promote orderly conditions in the foreign exchange market. The EFA contains foreign currency investments, the Government's gold holdings and assets related to Canada's commitment to the International Monetary Fund (IMF). Increases in the level of the reserves through borrowings, contributions to the IMF, and/or selling of Canadian dollars represent a requirement. Conversely, decreases in the level of reserves represent a source of funds. Taking all of these factors into account, there was a net source of $1.3 billion in the first nine months of 2002–03, compared to a net requirement of $0.6 billion in the same period of 2001–02.

With a budgetary surplus of $11.2 billion, a net requirement of $17.9 billion from non-budgetary transactions and a net source of $1.3 billion from foreign exchange transactions, there was a net financial requirement of $5.5 billion in the April to December 2002 period, compared to a net requirement of $1.2 billion in the same period of 2001–02.

Net borrowings down $2.6 billion for April to December 2002

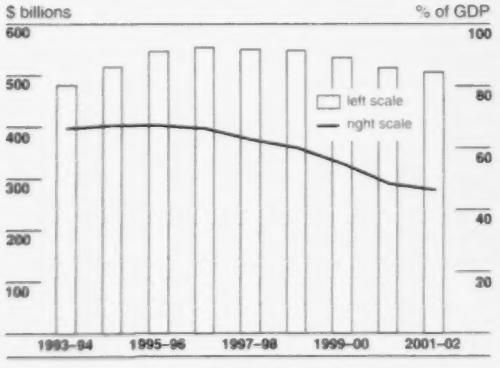
To finance this net financial requirement of $5.5 billion, the Government reduced its cash balances by $8.1 billion. This also allowed it to reduce its net borrowings by $2.6 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

Note to readers:

The Government has implemented full accrual accounting in its annual financial statements. However, the monthly financial results for the balance of fiscal year 2002–03 will remain on a modified accrual basis of accounting. Until the monthly results are on full accrual, Table 6 "Condensed statement of assets and liabilities" will not be presented.

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